

**REPORT OF THE AUDIT OF THE  
FORMER LINCOLN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FORMER LINCOLN COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2006**

The Auditor of Public Accounts has completed the former Lincoln County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$14,604 from the prior year, resulting in excess fees of \$13,813 as of December 31, 2006. Revenues increased by \$34,244 from the prior year and expenditures increased by \$48,848.

**Debt Obligations:**

A capital lease principal agreement totaled \$5,500 as of December 31, 2006. Future principal and interest payments of \$5,500 are needed to meet this obligation.

**Report Comment:**

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive  
The Honorable Shelby Lakes, Former Lincoln County Sheriff  
The Honorable Curt Folger, Lincoln County Sheriff  
Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Lincoln County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive  
The Honorable Shelby Lakes, Former Lincoln County Sheriff  
The Honorable Curt Folger, Lincoln County Sheriff  
Members of the Lincoln County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

September 17, 2007



LINCOLN COUNTY  
SHELBY LAKES, FORMER SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	18,857
State Fees For Services:		
Finance and Administration Cabinet	\$	5,028
Cabinet For Human Resources	48,340	53,368
Circuit Court Clerk:		
Sheriff Security Service	21,381	
Fines and Fees Collected	6,625	28,006
Fiscal Court		22,324
County Clerk - Delinquent Taxes		1,961
Commission On Taxes Collected		176,493
Fees Collected For Services:		
Auto Inspections	4,030	
Accident and Police Reports	444	
Serving Papers	17,046	
Carrying Concealed Deadly Weapon Permits	8,087	29,607
Other:		
Lincoln County Ordinance	8,130	
School Resource Officer	8,940	
Tax Collection Fees	32,869	
Miscellaneous	3,006	52,945
Interest Earned		1,592
Borrowed Money:		
State Advancement		95,986
Total Revenues		481,139

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY  
 SHELBY LAKES, FORMER SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	136,035
Part-Time and Other Salaries		32,380
Overtime		13,093
Kentucky Law Enforcement Foundation Program Fund		18,838
Security Salaries		45,795

Materials and Supplies-

Office Materials and Supplies		4,335
Uniforms		2,610

Auto Expense-

Gasoline		11,260
Maintenance and Repairs		7,199

Other Charges-

Conventions and Travel		872
Postage		152
K-9 supplies		1,792
Carrying Concealed Deadly Weapon Permits		4,795
Lincoln County Ordinance		8,090
Miscellaneous		4,248

Capital Outlay-

Office Equipment		<u>2,250</u>	\$	293,744
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Debt Service:

State Advancement		<u>95,986</u>
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Total Expenditures

389,730

Net Revenues

91,409

Less: Statutory Maximum

74,294

Excess Fees

17,115

Less: Training Incentive Benefit

3,302

Excess Fees Due County for 2006

13,813

Payment to Fiscal Court - February 20, 2007

12,000

Balance Due Fiscal Court at Completion of Audit

\$ 1,813

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease Agreement

The Sheriff's office is committed to a lease agreement with Custom Solutions Incorporated (CSI) for computer hardware. The agreement requires a monthly payment of \$250 for 36 months to be completed on September 1, 2008. The total remaining balance of the agreement was \$5,500 as of December 31, 2006.

LINCOLN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 5. Federal Forfeiture Account

Under terms stipulated by the United States Department of Justice and the Commonwealth of Kentucky, the former Sheriff's office had received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions involving Federal agents. These proceeds may be used for certain operating expenditures (excludes personnel services and employee benefits) of the Sheriff's office. The balance in the account as of January 1, 2006 was \$9,192. During 2006, receipts were \$140 and there were no disbursements. The balance in the account as of December 31, 2006 was \$9,332. The former Sheriff transferred this account to the incoming Sheriff upon vacation of the office.

Note 6. Special Account

Under the terms stipulated by the Lincoln County Fiscal Court, the former Sheriff's office had received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions not involving Federal agents. These proceeds may be used for certain operating expenditures (excludes personnel services and employee benefits) of the Sheriff's office. The balance in the account as of January 1, 2006 was \$19. During 2006, there were no receipts and disbursements were \$19. The account balance was \$0 as of December 31, 2006.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ronald W. Gilbert, Lincoln County Judge/Executive  
The Honorable Shelby Lakes, Former Lincoln County Sheriff  
The Honorable Curt Folger, Lincoln County Sheriff  
Members of the Lincoln County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Lincoln County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated September 17, 2007. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Lincoln County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Lincoln County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Lincoln County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Lincoln County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Lincoln County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 17, 2007

COMMENT AND RECOMMENDATION



LINCOLN COUNTY  
SHELBY LAKES, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of adequate segregation of duties. The bookkeeper was responsible for completing the daily checkout sheet, posting to the ledgers, and preparing the monthly bank reconciliation. The following compensating controls could have been implemented to offset this material weakness:

- Separate individuals should have performed the completion of the daily checkout sheet and posting of receipts to ledger. These individuals should have initialed the checkout sheet once their individual functions were completed.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this comparison by initialing the bank reconciliation and the balance in the checkbook.
- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. He could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger.

*Former Sheriff's Response: No response.*

